

Sales to the US Government

Your sales and leases of merchandise to the US government are generally exempt from California sales and use tax. This includes sales and leases to

- The United States or its unincorporated agencies and instrumentalities. Examples include the Postal Service, branches of the armed services, military exchanges, federal courts, and agencies such as the US Forest Service and the Department of Housing and Urban Development.
- Any incorporated agency or instrumentality of the United States that is wholly owned either by the United States or by a corporation that is wholly owned by the United States. Examples include: the Resolution Trust Corporation and the Federal National Mortgage Association (Fannie Mae).
- The American National Red Cross, including its chapters and branches.
- Incorporated federal instrumentalities that are not wholly owned by the United States, unless federal law permits taxing them. Examples of the former include: federal reserve banks, federal credit unions, federal land banks, and federal home loan banks.

If you are unsure whether an agency, corporation or other organization fits into one of the categories listed here, please contact the Board for help.

Please note: Sales to individual members of the armed services do not qualify for this exemption even if the merchandise is billed through an exempt organization such as a service exchange or officers' mess. In addition, sales to State of California agencies and state political subdivisions — counties, cities, and special districts (such as irrigation, fire, and school districts) — are generally taxable. This holds true even if the purchase is made using federal funds.

Sales to individuals insured under the Medicare program

Your sales to individuals insured under Part A of the Medicare program are tax-exempt when Medicare pays you directly. However, your sales to individuals covered under Medicare Part B do not qualify for this exemption, even when the patient assigns the claim for reimbursement to you.

Sales to federal contractors

Businesses working under contract to the federal government are usually not considered agents of the United States. Consequently, your sales to those contractors do not qualify as tax-exempt sales to the US government. However, federal *supply* contractors may issue a resale certificate when they buy tools, equipment, direct consumable supplies, and overhead materials

Sales and Use TAX FACTS

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For additional information
you may wish to order
the regulations
listed on the reverse,
or talk to a Board of
Equalization representative.
For assistance, please call
800-400-7115
TDD/TTY 800-735-2929.
Internet: www.boe.ca.gov

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that they will use on a government contract, provided that title to the property passes to the US government before the contractor uses it. For more information, you may wish to obtain a copy of Regulation 1618, *United States Government Supply Contracts*.

US government *construction* contractors are considered end users of materials and fixtures they furnish and install as part of their government construction contracts. Your sales of materials, fixtures, and supplies to such contractors are generally taxable. However, US government contractors are considered retailers of machinery and equipment they furnish in fulfilling their government contracts. They may issue a resale certificate for the purchase of such an item, provided title to the machinery or equipment will pass to the United States before the contractor makes any use of it. For more information, you may wish to obtain a copy of Regulation 1521, *Construction Contractors*. You may also call the Board for assistance.

Documentation required for your records

When you make a tax-exempt sale or lease, you should be sure to retain documentation that clearly shows that the transaction is tax-exempt. For sales to the US government, documentation can include items such as:

- Purchase orders
- Documents showing direct payment by the US government
- Shipping and related documents if there is a question that the merchandise might have been sold directly to an individual in the armed services rather than to the US government

Properly completing your sales and use tax return

You must report your total gross sales for the reporting period on your sales and use tax return. If your total receipts include tax-exempt sales to the US government, you should take a deduction for those sales on the line set aside for that purpose. If you don't take the deduction, you'll pay more tax than you owe.

Related regulations

- 1521 Construction Contractors
- 1614 Sales to the United States and Its Instrumentalities
- 1618 United States Government Supply Contracts

Note: The statements in this fact sheet are general and are current as of May 2005. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.